

Washington State Auditor's Office
Report on Financial Statements and Federal Single Audit

City of Aberdeen
Grays Harbor County

Audit Period
January 1, 2002 through December 31, 2002

Report No. 65562

Issue Date
September 26, 2003



Washington
State Auditor
Brian Sonntag



Legislative Building
PO Box 40021
Olympia, Washington 98504-0021

Washington State Auditor
Brian Sonntag

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov>

September 26, 2003

Mayor and City Council
City of Aberdeen
Aberdeen, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Aberdeen's financial statements and compliance with federal laws and regulations.

We are issuing this report now in order to provide information on the City's financial condition.

In addition to this work, we look at other areas of our audit clients' operations for compliance with state laws and regulations. The results of that review will be included in our regular audit report, which will be issued separately.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Grays Harbor County
January 1, 2002 through December 31, 2002**

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Federal Summary

**City of Aberdeen
Grays Harbor County
January 1, 2002 through December 31, 2002**

The results of our audit of the City of Aberdeen are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued a qualified opinion on the City's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the City.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The City did not qualify as a low-risk auditee under OMB Circular A-133.
- The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.228	Community Development Block Grant
20.205	Highway Planning and Construction
83.548	Fire Department Seismic Retrofit

Status of Prior Federal Findings

City of Aberdeen Grays Harbor County January 1, 2002 through December 31, 2002

The status of findings contained in prior audit reports of the City of Aberdeen is provided below:

1. The City of Aberdeen did not comply with state bid laws.

Background

Our audit of the City for 2001 found noncompliance with state bid laws in the management of three projects. In one of the projects, payment was made for services that were not within the scope of the original contracts. The additional work represented a separate undertaking subject to competitive bid requirements or laws governing the use of small works rosters. Additionally, the project involved federal funds, resulting in noncompliance with a federal grant requirement. A second project identified cost over-runs that were not approved by City officials through the use of change orders. In a third project, the City did not have documentation needed to support its use of a sole source contract for the purchase of asphalt.

Our review also noted that written contracts were not obtained for projects awarded using the small works roster.

Status

For the current year, we selected five projects for bid law testing. One of the projects was federally funded. We reviewed the project and noted the City complied with all competitive bid requirements. We also noted the City only paid for services that were within the scope of the original project and there were no cost over-runs.

We also reviewed several small works projects and noted the City now requires written contracts when the projects are awarded. This finding is considered resolved.

2. An Auditing Officer certification was not completed for City expenditures as required by state law.

Background

The City processed over \$27 million in expenditures including approximately \$642,000 from federal grants during fiscal year 2001. The 1999 and 2000 audits identified the City's noncompliance with a state law requiring an Auditing Officer certification be completed for all City expenditures prior to their payment. Certification is required to ensure all claims are just and due claims owed by the City. We advised the City to comply with the law.

Status

For the current year, we spoke with City personnel to determine whether this issue had been resolved. We were told the Finance Director now certifies all claims made by the City. We obtained the voucher certification file and reviewed the voucher reports for March and May 2003. We noted the reports listed all vouchers by detail and the Finance Director certified each of the reports. This finding is considered resolved.

3. The City did not follow federal subrecipient monitoring requirements for a Community Development Block Grant.

Background

The City was awarded a Community Development Block Grant by the state Department of Community, Trade and Economic Development and the U.S. Department of Housing and Urban Development.

The City contracts the administration of this grant to the Aberdeen Neighborhood Housing Services, Inc., a non-profit organization. The organization is the subrecipient of the grant and in 2001 received \$159,233.

In 1998, we reported a finding that stated the City did not have a system in place to ensure compliance with subrecipient monitoring for this grant. After receiving this finding, the City developed procedures to ensure compliance. It was to perform two on-site visits per year to ensure the organization was in compliance with federal grant requirements. Audits performed for 1999 and 2000 found that the City was following these procedures.

Although the City had a system in place to monitor the subrecipient's compliance with grant requirements, we found no documentation that two on-site visits were performed in fiscal year 2001. The City's monitoring activity was not sufficient to determine the subrecipient's compliance with federal administrative requirements.

Status

For the current audit, we again reviewed the subrecipient monitoring requirements for the Community Development Block Grant. We noted one on-site visit was performed in fiscal year 2002. After further inquiry with City personnel, we determined the City could perform one on-site visit that incorporated a review of the entire year. We reviewed the documentation and noted the entire year was incorporated in the review. The finding is considered resolved.

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

**City of Aberdeen
Grays Harbor County
January 1, 2002 through December 31, 2002**

Mayor and City Council
City of Aberdeen
Aberdeen, Washington

We have audited the general purpose financial statements of the City of Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 2002, and have issued our report thereon dated September 10, 2003. We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our responsibility is to examine, on a test basis, evidence about the City's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the City and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and City Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized "S" at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2003

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Aberdeen
Grays Harbor County
January 1, 2002 through December 31, 2002**

Mayor and City Council
City of Aberdeen
Aberdeen, Washington

COMPLIANCE

We have audited the compliance of the City of Aberdeen, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2002. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with governmental auditing standards in the United States of America, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2002.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and City Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, sweeping flourish at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2003

Independent Auditor's Report on Financial Statements

**City of Aberdeen
Grays Harbor County
January 1, 2002 through December 31, 2002**

Mayor and City Council
City of Aberdeen
Aberdeen, Washington

We have audited the accompanying general purpose financial statements of the City of Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 2002, as listed on page 10. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City declined to present a statement of cash flows for year ended December 31, 2002. Presentation of such statements summarizing the City's operating, investing and financial activities is required by generally accepted accounting principles (GAAP).

The City also declined to present a statement of plan net assets of its Pension Trust Fund for the year ended December 31, 2002. Presentation of such statements summarizing the City's changes in plan net assets of its Pension Trust Fund is required by GAAP.

In our opinion, except that the omission of a statement of cash flows and statement of plan net assets results in an incomplete presentation as explained in the preceding paragraphs, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Aberdeen, at December 31, 2002, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State and Local Financial Assistance is also presented for purposes of additional analysis. These schedules are

not a required part of the financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2003

General Purpose Financial Statements

**City of Aberdeen
Grays Harbor County
January 1, 2002 through December 31, 2002**

GENERAL PURPOSE FINANCIAL STATEMENTS

Combined Balance Sheet – All Fund Types and Account Groups – 2002
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – All
Governmental Fund Types and Expendable Trust Funds – 2002
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and
Actual – All Governmental Fund Types – 2002
Combined Statement of Revenues, Expenses and Changes in Fund Equity – Proprietary Fund
Types and Similar Trust Funds – 2002
Notes to the Financial Statements – 2002

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2002
Schedule of State and Local Financial Assistance – 2002
Notes to the Schedule of Expenditures of Federal Awards and State and Local Financial
Assistance – 2002